



Forward Rate Agreement Conventions

Contents

1. Description.....	2
2. Products.....	2
3. Dealing.....	2
3.1. Methods of Dealing	2
3.2. Electronic Dealing.....	2
3.3. Business Days	2
3.3.1. Good Business Day.....	2
3.3.2. Non Business Day.....	3
3.4. Standard Transaction Size (market parcel)	3
3.5. Two Way Pricing.....	3
3.6. Quotation and Dealing.....	3
3.7. Other Instrument Conventions	3
3.8. Basis.....	4
3.9. Maturity Conventions	4
3.10. Settlement Rate or Index	4
3.11. Premium Payment Date(s).....	4
3.12. Expiry Conventions	4
3.13. Broker Conventions	4
3.14. Confidentiality	4
3.15. Credit	4
3.16. Exercise of Options	4
3.17. Data Source	5
3.18. Pricing Formulae.....	5
3.18.1. AUD and NZD.....	5
3.18.2. Other Currencies.....	5
3.18.3. Adjustment of Settlement Date and Maturity Date	5
4. Confirmations.....	5
4.1. Timing	5
4.2. Confirmation Standards	5
4.3. Transaction Information	5
4.4. Electronic Matching for AUD FRA.....	6
5. Settlements.....	6
5.1. Physical Settlements.....	6
5.2. Cash Settlements.....	6
5.2.1. Electronic Settlement for AUD FRA	6
5.2.2. Rate Set Notification	7

1. Description

Forward Rate Agreements (FRA) enable interest rate exposures to be altered. An FRA operates like an OTC futures contract but with greater flexibility in that any starting date and term can be agreed on a bilateral basis.

FRA are chiefly used by professional market operators for trading in-house and hedging and to provide hedging products to investors, companies and government.

2. Products

A FRA is an agreement between two parties seeking to protect themselves against a future interest rate movement in a particular currency for a specified period at an agreed contract rate. It requires the parties to settle the differential between the contract rate and the interest settlement rate. There is no commitment by either party to lend or borrow the contract amount.

FRA can be denominated in any currency; e.g. AUD FRA, NZD FRA, USD FRA, and other foreign currency FRA.

3. Dealing

3.1. Methods of Dealing

Deals are done directly via telephone or via brokers.

3.2. Electronic Dealing

Not applicable.

3.3. Business Days

3.3.1. Good Business Day

A good business day is defined as any day on which banks in the state of New South Wales (NSW) are generally open for business, or a day other than one on which banks in NSW are obliged or permitted to close, excluding Saturday and Sunday.

Essentially, NSW business days are weekdays (Monday to Friday) other than NSW public holidays as gazetted under the NSW state government's Banks and Bank Holidays Act 1912.

That said Australian OTC markets generally tend to operate in a reduced capacity on gazetted NSW public holidays that are not similarly gazette in Victoria.

3.3.2. Non Business Day

A non business day is defined as any day on which banks in the state of NSW are generally obliged or permitted to close, including Saturday and Sunday.

In general, AFMA recommends that transactions should not be negotiated for settlement or price fixing (rollover) on a non business day.

3.4. Standard Transaction Size (market parcel)

The dealing volume must be specified when a quote is given. Unless specified otherwise, the following minimum dealing parcels will apply to all Australian dollar FRA:

Maturity	Notional Principal
1 month	\$ 1 billion
3 months	\$ 500 million
6 months	\$ 200 million
12 months	\$ 100 million

Last reviewed February 2008.

3.5. Two Way Pricing

No specific convention.

3.6. Quotation and Dealing

Quotes are expected to be provided promptly.

AFMA members will deal firm on their pay/receive quotes.

When quoting FRA, there is a particular phraseology that is standard in the market. The convention is to state the trade as having a starting month that is a certain number of months from now, an ending (maturity) month that is a certain (larger) number of months from now and the date within the month that is the settlement and maturity date.

For example, if today is June 5 and the FRA covers the period from September 20 to December 20 and both dates are Business Days it would be phrased as 3s/6s the 20th (and pronounced as threes sixes the twentieth).

3.7. Other Instrument Conventions

Not applicable.

3.8. Basis

AUD FRA are dealt on an actual/365 basis.

3.9. Maturity Conventions

Not applicable.

3.10. Settlement Rate or Index

The settlement rate will be the rate displayed on Reuters monitor page "BBSW" for AUD and "BKBN" for NZD, for the corresponding settlement period, unless otherwise agreed by both parties at the time of the original transaction. Linear interpolation will apply for non-standard dates, for AUD using the "AFMA 1 day Reference Rate" on page BBSW for periods less than 1 month.

For currencies other than AUD and NZD, the settlement rate will be the rate displayed on the relevant Reuters or British Bankers Association (BBA) LIBOR page for the corresponding settlement period and currency, unless otherwise agreed by both parties at the time of the original transaction.

3.11. Premium Payment Date(s)

Not applicable.

3.12. Expiry Conventions

Not applicable.

3.13. Broker Conventions

No specific convention.

3.14. Confidentiality

No specific convention.

3.15. Credit

The ability to deal is subject to credit constraints/limits. Dealers should advise the counterparty as quickly as possible if they are unable to deal because of credit restrictions.

3.16. Exercise of Options

Not applicable.

3.17. Data Source

End of day prices for FRA can be found on AFMA *data* page FRA end of day rates.

3.18. Pricing Formulae

3.18.1. AUD and NZD

$$Payment = Notional \times \left(\left(\frac{1}{1 + FixedRate \times \frac{d}{365}} \right) - \left(\frac{1}{1 + FloatingRate \times \frac{d}{365}} \right) \right)$$

3.18.2. Other Currencies

$$Payment = \frac{(FixedRate - FloatingRate) \times d \times Notional}{36500}$$

3.18.3. Adjustment of Settlement Date and Maturity Date

If the Settlement Date or the Maturity Date does not fall on a Business Day, then it is adjusted on a Modified Following Business Day basis.

4. Confirmations

4.1. Timing

Confirmations are to be provided as soon as possible after the details of the transaction are agreed. Generally, this should take place within one hour of dealing.

4.2. Confirmation Standards

The initial confirmation for this type of product supplements and forms part of the ISDA Master Agreement, and therefore the transaction must be confirmed using the standard form of confirmation.

4.3. Transaction Information

Complete transaction information must be confirmed. For FRA's (per the ISDA 2006 Definitions) the confirmation must include all applicable items from the list below:

- Trade Date
- Date of ISDA Master Agreement
- Fixed Rate Payer
- Floating Rate Payer

- Notional Amount(s) and Currencies
- Effective Date
- Termination Date
- Reset Date
- Payment Date for each Party
- Business Day Convention
- Day Count Fraction
- Floating Rate Option
- FRA Yield Discounting¹
- Designated Maturity
- Business Centres for each Party
- Office of each Party

1 - If the 2006 ISDA Definitions have been incorporated into the Master Agreement with a counterparty, the formula for AUD and NZD FRAs is automatically used for each such transaction, as "FRA Yield Discounting" will apply. For caps, floors and collars, the confirmation should specify that "FRA Yield Discounting" will not apply".

4.4. Electronic Matching for AUD FRA

ASX Austraclear provides an Electronic Trade Confirmation and Settlement service for AUD FRAs. Under the confirmation component, both parties enter the transaction details which then electronically match on the following fields: Counterparty, Settlement Date, Maturity Date, Principal Amount and Specified Interest Rate. If all fields match, the details are recorded and stored in the system until Settlement date.

This feature eliminates the need to issue paper based confirmations. ASX Austraclear has updated the Rules and Regulations to ensure that these transactions are captured and governed by a Participant's existing ISDA Master Agreement. A function in EXIGO allows Participants to enter the date of the applicable ISDA Master Agreement.

Not all of the terminology used by Austraclear matches ISDA terminology. Refer to AFMA's [Guide to Australian OTC Transactions](#) Part 3.2.5.20 which clarifies the terminology usage and provides recommended confirmations for parties not using ASX Austraclear.

5. Settlements

5.1. Physical Settlements

Not applicable.

5.2. Cash Settlements

5.2.1. Electronic Settlement for AUD FRA

ASX Austraclear delivers a range of service options designed to streamline operational processes and enhance market participants' straight through processing capabilities.

On the settlement date, the ASX Austraclear system will enter the BBSW rates for maturing transactions or parties can enter their agreed rate. The net difference between the fixed rate and the settlement rate will be automatically calculated and transferred to the participant's ASX Austraclear bank account.

5.2.2. Rate Set Notification

Counterparties should confirm the rate and settlement amount on rate set date and thus avoid any discrepancy when settlement occurs. If confirmation is to occur by letter then the parties should agree which party or parties are to issue such confirmation(s), although this process is usually bilateral. It should be appropriately amended if other forms of confirmation are used.

On 17 January, 2003 ISDA recommended that parties cease exchange of rate set notification letters. However this must be agreed bilaterally under the ISDA Master Agreement.